



## MEMORANDUM

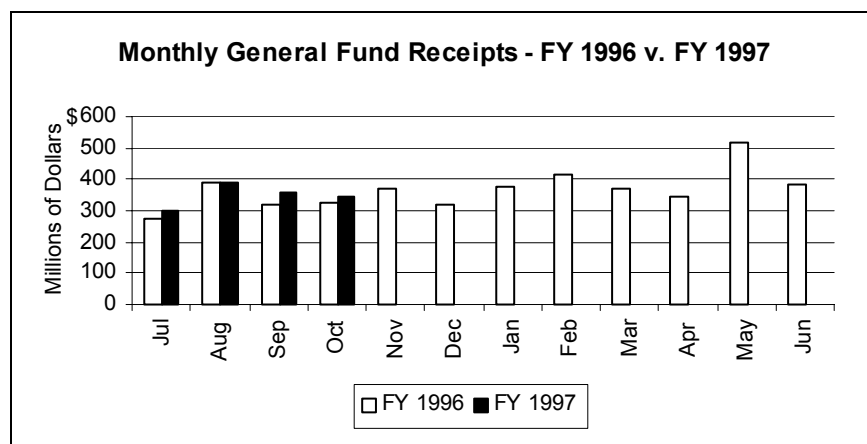
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: November 1, 1996

### General Fund Receipts Through October 31, 1996

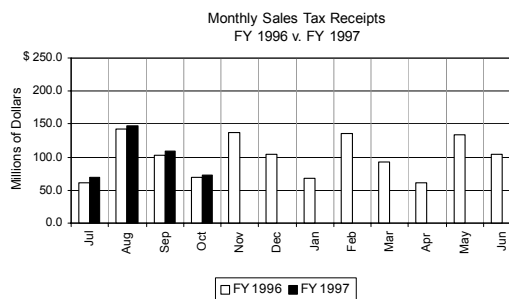
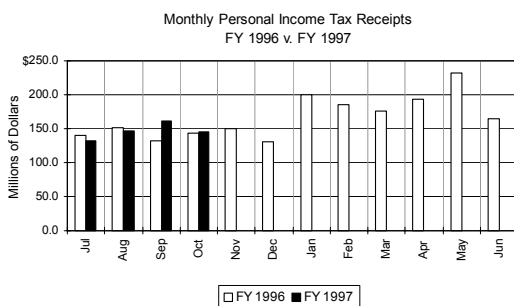
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can also be compared to the latest FY 1997 estimate (\$4.495 billion) set by the Revenue Estimating Conference (REC) on September 25, 1996. The REC revised the FY 1997 total General Fund receipts estimate upward to \$4.627 billion, an increase of \$132.2 million compared to the April estimate. This represents an increase of \$220.4 million (5.0%) compared to FY 1996. The Conference also established a FY 1998 estimate in the amount of \$4.835 billion, an increase of \$208.0 million (4.5%) compared to the revised FY 1997 estimate.



Total year-to-date General Fund receipts for the first four months of FY 1997 increased 6.6% compared to FY 1996. Tax receipts showed an increase of 6.3%. Personal income tax receipts increased 3.3%. Sales tax receipts were 5.7% higher than the previous fiscal year. Use tax increased 8.1% compared to FY 1996, and corporate income tax receipts showed a 16.6% increase. The first four months of the current year has had two more processing days than the same period in FY 1996. Also, October 1996 had one more processing day than October 1995.

**Gross personal income tax** receipts for October were \$1.9 million (1.1%) more than October 1995. Low monthly growth was due in part to timing factors. Withholding receipts, which had been

experiencing low growth rates through the first quarter, rebounded in October with a monthly gain of 8.6%. The gain, however, was offset by a 20.0% decrease in estimate payments. The decline in estimate payments was mostly a result of their due date, which came in September last year and October this year, although year-to-date estimate payments lag last year's level by 2.2%. Overall, the individual income tax year-to-date figure of 3.3% is a better measure of activity than the lower monthly figure. If anything, the year-to-date mark should be revised upward to approximately 4.0% to account for the effects of the changes in the withholding tables undertaken by the Department of Revenue and Finance early in FY 1996. The September REC increased the FY 1997 estimate for individual income tax \$64.1 million to \$2.123 billion, an increase of 6.1% compared to actual FY 1996. Receipts for the remainder of the year will need to grow 7.2% to reach the REC estimate.



**Sales tax** growth of 4.4% in October retreated somewhat from the 6.0% rate seen through the first quarter. The slowdown was due to low growth in sales tax attributable to small retailers. Sales tax remittance from large retailers grew 8.2% compared to the first four months of FY 1996. Although Iowa specific data is difficult to obtain, national data from the U.S. Department of Commerce suggests savings rates are increasing, and are at their highest level since December 1993. This may adversely affect sales tax receipts in the short run if the trend appears in Iowa. The September REC raised the FY 1997 sales tax estimate \$28.0 million to \$1.278 billion, an increase of 5.4% compared to FY 1996. Sales tax receipts for the remainder of the year will need to grow 5.2% to reach the REC estimate.

**Corporate income tax** receipts in October were \$1.3 million (3.4%) more than October 1995. Year-to-date receipts exceeded FY 1996 levels by \$14.2 million (16.6%). Nearly all of the annual growth is due to a timing factor associated with the day of the week on which the fiscal year began. If a timing issue relating to the due date for corporate estimate payments is considered, corporate income tax receipts are outpacing last year's receipts by approximately 1.4%. The REC increased the FY 1997 estimate for corporate income tax receipts by \$16.9 million in September. The current estimate represents an increase of 4.5% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to match last year's activity.

**Franchise tax** receipts through the first four months totaled \$11.0 million, an increase of \$2.6 million (31.0%) compared to actual FY 1996 receipts. The monthly decline of 32.3% is due to timing factors associated with the due date for the payments. Over the last two months, estimate payments were 7.3% higher than the same period in FY 1996. The September REC revised the FY 1997 franchise tax estimate upward by \$3.0 million. Prior to the fourth quarter of FY 1996, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the last quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax receipts in the last quarter of FY 1996 were 12.0% higher than the last quarter of FY 1995.

**Racing and gaming receipts** in October increased 29.5% compared to October 1995. Receipts through the first four months were 24.8% higher than the same period in FY 1996. In compliance with HF 2421

(Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, the Department of Revenue and Finance transferred \$46.1 million from racing and gaming receipts to the Rebuild Iowa Infrastructure Fund. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. The September REC reported they anticipate total racing and gaming receipts to reach \$113.5 million in FY 1997. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. The transfer is expected to increase to \$58.1 million in FY 1998.

As an outgrowth of HF 2421, total General Fund receipts growth of \$85.7 million through October includes \$7.3 million from racing and gaming receipts that will not be there at year's end. Thus, adjusted for this factor, total General Fund receipts growth for the first four months of FY 1997 would be 6.0% rather than 6.6%.

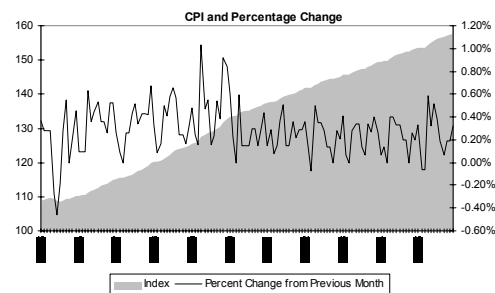
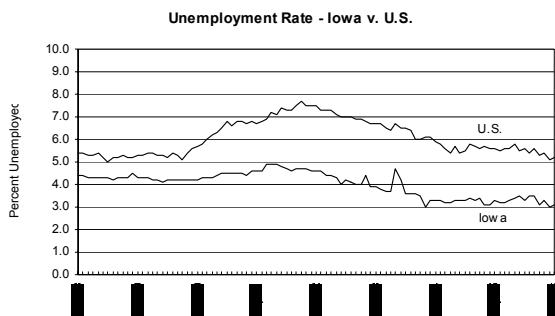
### Receipts Compared to REC Estimate

The September REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first four months was exceeded by approximately \$20.3 million (unadjusted for any timing factors). More than 78.3% of the excess is due to two factors: inheritance tax receipts, which are exceeding projections by \$8.6 million; and racing and gaming receipts growth, which will not be realized at year's end. Through October, approximately 30.1% of estimated General Fund receipts have been received. In FY 1996, 30.0% of actual receipts were received in the first four months.

### Status of the Economy

The seasonally adjusted percent unemployed for the State increased one-tenth of a point from August's record level of 3.0%. The unemployment rate a year ago was 3.3%. The U.S. unemployment rate also increased one-tenth of a point to 5.2% in September. The U.S. rate in September 1995 was 5.6%.

Consumer prices in September increased approximately 0.3%. The Consumer Price Index (CPI) through September 1996 was 157.8 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through September 1996.



### Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1996, through October 31, 1996, in millions of dollars					FY 96 Actual Compared to FY 97 REC Estimate		
	FY 1996	FY 1997	Year to Date		Actual	Estimate	% CHANGE
			% CHANGE	October	FY 1996	FY 1997	% CHANGE
Personal Income Tax	\$ 567.6	\$ 586.4	3.3%	1.1%	\$ 2,000.9	\$ 2,123.1	6.1%
Sales Tax	377.9	399.5	5.7%	4.4%	1,213.0	1,278.0	5.4%
Use Tax	70.3	76.0	8.1%	7.9%	207.8	221.3	6.5%
Corporate Income Tax	85.7	99.9	16.6%	3.4%	277.6	290.0	4.5%
Inheritance Tax	30.9	41.1	33.0%	28.9%	95.9	101.0	5.3%
Insurance Premium Tax	0.1	0.1	0.0%	n/m	104.3	107.0	2.6%
Cigarette Tax	31.6	33.2	5.1%	11.0%	94.1	95.0	1.0%
Tobacco Tax	1.8	2.0	11.1%	25.0%	5.3	5.5	3.8%
Beer Tax	4.6	4.6	0.0%	0.0%	12.6	12.5	-0.8%
Franchise Tax	8.4	11.0	31.0%	-32.3%	26.5	30.0	13.2%
Miscellaneous Tax	1.8	1.5	-16.7%	-71.4%	0.9	0.9	0.0%
Total Special Taxes	\$ 1,180.7	\$1,255.3	6.3%	3.2%	\$ 4,038.9	\$ 4,264.3	5.6%
Institutional Payments	32.9	33.2	0.9%	-6.8%	105.0	104.7	-0.3%
Liquor Transfers:							
Profits	7.0	8.0	14.3%	0.0%	29.0	29.0	0.0%
7% Gross Revenue	3.0	3.0	0.0%	0.0%	9.0	9.0	0.0%
Interest	4.4	3.1	-29.5%	40.0%	13.5	11.5	-14.8%
Fees	18.1	20.7	14.4%	28.6%	61.7	62.4	1.1%
Judicial Revenue	8.3	10.4	25.3%	95.2%	40.0	40.1	0.2%
Miscellaneous Receipts	23.4	22.5	-3.8%	142.9%	49.5	46.0	-7.1%
Racing and Gaming Receipts	29.4	36.7	24.8%	30.7%	60.0	60.0	0.0%
TOTAL RECEIPTS	\$ 1,307.2	\$1,392.9	6.6%	7.2%	\$ 4,406.6	\$ 4,627.0	5.0%